

International Trade and Domestic Business

RECENT developments in United States foreign trade have exerted on the whole a favorable influence on domestic business conditions. The relative stability of nonmilitary exports through 1953 and particularly the rise which set in during the early part of 1954 aided in minimizing the decline in national output. At the same time various factors discussed later enabled most foreign countries to maintain their sales to the United States at a relatively high rate. United States imports during January-June 1954 were only 7 percent below the near-record purchases in the first half of 1953. They were as large as in the second half of last year, and the trend this year has been upward.

The shipping strike which occurred in March 1954 was in part responsible for the significant gains in trade during the second quarter. Data for May and June indicate, however, that even without the strike, both exports and imports would have been higher than in the first quarter.

Noteworthy also has been an expansion in services exchanged, and an accelerating trend toward the freeing of international transactions from Government controls in some of the major countries in Continental Europe, the sterling area, and in some of the Latin American Republics.

The relaxation of restrictions on international transactions has been made possible not only by the improved gold and dollar position of the countries concerned but also by their rising confidence in their own productive capacity and competitive ability, and in the maintenance of high output and incomes in the United States.

Among other factors contributing to this improvement has been the large expansion in foreign travel, which promises to provide nearly \$1.2 billion to foreign countries this year. Travel expenditures by United States residents in foreign countries during the first half of 1954 amounted to nearly \$400 million. In addition, travelers paid nearly \$100 million in fares to foreign carriers, and about \$110 million to United States steamship companies and airlines.

Payments by travelers during the first 6 months normally run about two-fifths of the annual total. On this basis, United States travel expenditures, excluding international fares, should reach nearly \$1 billion for the year 1954.

Although foreign restrictions on transactions with the United States have been considerably relaxed, and foreign grants and loans by the United States Government were further reduced, foreign countries added another \$200 million to their gold and liquid dollar assets through transactions with the United States in the second quarter bringing the total for the year ending in June to about \$1.7 billion.

Even though the overall rise was about \$200 million less in the second quarter than during the corresponding period of last year, the rise in such assets of the sterling area was about equal to that of last year. Continental Europe, in addition to reducing long-term debts to the United States,

continued to expand its reserves, but at a slower rate. The nonsterling countries in Asia, mainly Japan, Siam and the Philippines, however, had to meet increasing deficits.

The accumulation of gold and dollar assets by Latin American as a whole was considerably smaller than a year earlier and there were sharply divergent trends within the area. Colombia, Venezuela and Cuba had substantial gains, while Brazil and Mexico had losses. A capital outflow from Mexico forced gold sales to the United States of \$80 million offset in part by an increase of \$34 million in Mexico-held dollar deposits.

MERCHANDISE TRADE

Merchandise exports from the United States aside from military end-items transferred under aid programs were \$200 million higher in the first half of 1954 than in the like period a year ago.¹ About half of this rise consisted of raw cotton, vegetable oils, and other agricultural commodities. The improvement in these exports was facilitated by the disappearance of excess cotton inventories in the rest of the world and by the acceptance of foreign currencies by the Government in payment for agricultural exports over and above normal foreign purchases. Shipments under this program, which started late in 1953 and amounted in that year to less than \$15 million, exceeded \$100 million during January-June 1954.

Among major agricultural products only grain and tobacco exports in the 6 months were below those of a year ago. The lower shipments of tobacco resulted entirely from the variation in timing of United Kingdom purchases. Sales during the crop year July 1953-June 1954 were actually higher than those of the preceding year. Grain exports, however, continued to decline in the first half of 1954. Emergency shipments to Pakistan had been completed at the end of 1953 and shipments to Europe continued to be adversely affected by increased production within Europe and imports from other sources.

Exports and domestic production

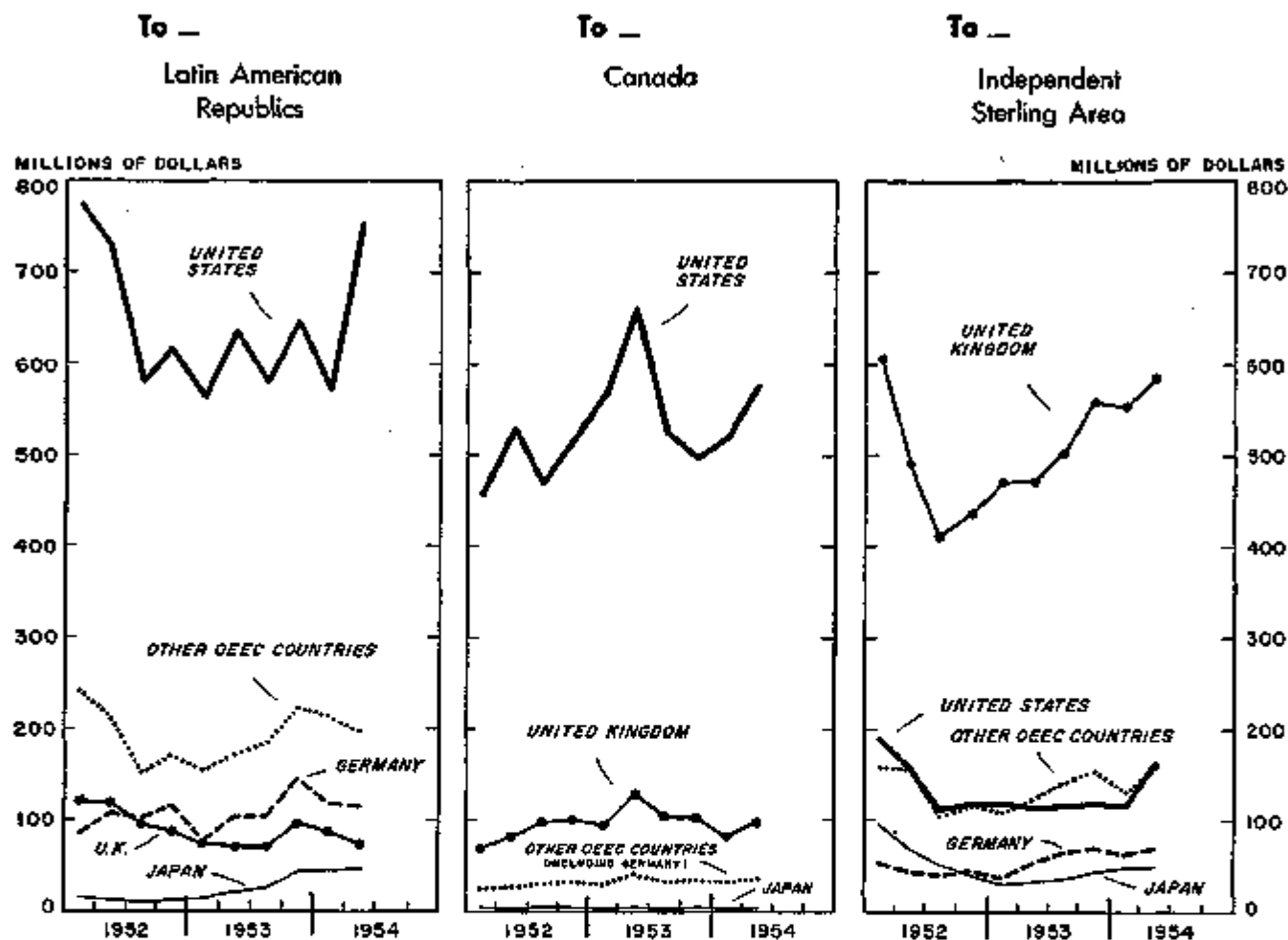
Exports of nonagricultural goods in total also rose during the first half of this year though the effects of foreign sales upon domestic industries differed considerably. Greater exports of motor trucks and coaches, automobiles, railway passenger cars, and nonferrous metals during 1954 offset in part the reduced domestic sales of these products. The steel industry was also helped by foreign demand which offset in part the lower domestic shipments. Rising sales abroad aided the total sales of the chemical industry, which is the subject of a companion article in this issue of the *SURVEY*.

For some other industries—machine tools and metal-working machinery, tractors, freight cars, and coal—lower exports as compared with last year coincided with reduced domestic demands.

1. The figure shown in table 4, line 5, for the first half of 1953 included large transfers under the Korean relief program of supplies obtained overseas.

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Nonagricultural Exports of the United States and of Other Major Manufacturing Countries *



* U.S. EXPORTS DO NOT INCLUDE SPECIAL CATEGORY GOODS, MAINLY MILITARY END-USE ITEMS. EXPORTS TO CANADA FROM ALL COUNTRIES SHOWN DO NOT INCLUDE COAL AND OIL.

OFFICE OF BUSINESS ECONOMICS U. S. D. C.

DATA: DEB. BUR., OEEC, & JAPAN ECON. STAT.

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Larger raw material exports

Producers of chemicals, metals, hides, wood and paper, and other basic materials were among those to benefit most from the growing export demand which developed in 1954. Exports of these products increased in importance relative to those of most types of producers' durable goods. In the latter category, the only major improvements were in truck exports and to a lesser extent in construction equipment.

The partial shift from exports of industrial equipment to shipments of basic materials reflected, to a degree, business developments in Canada and some other countries, as well as the decreasing backlog of European orders for machine tools and industrial equipment. At the same time, new or expanded industries abroad required greater imports of raw materials. In the first half of 1954 Western Europe's industrial production was substantially higher than a year earlier.

Moreover, some European countries expanded their inventories of copper and other basic metals and materials in recent months. These purchases may also have been stimulated by the resumption in August 1953 of private trading in copper on the London Metal Exchange and by the develop-

ment of more abundant supplies of metals, hides, and other raw materials in the United States where export controls were relaxed as domestic demands eased and inventories policies became increasingly conservative.

Exports of consumer goods fare well

Exports of consumer goods have also fared relatively better than shipments of capital equipment. This reflects the maintenance of high incomes in most foreign countries and the relaxation of import and exchange restrictions resulting from the improvement in foreign dollar reserves. Passenger car exports were the largest since the first half of 1951 and shipments of appliances also moved upward.

Among nondurables, exports of medicinals continued the steady improvement that began after the first quarter of 1953. Textile exports have remained relatively stable since the middle of 1952, as increased per capita consumption in major foreign markets has coincided with intensified competition from other textile exporting countries.

The rise in exports of consumer goods occurred despite declining sales to Canada, traditionally a leading market. Canadian purchases of passenger cars, appliances, and radios

and television sets were greatly curtailed during the current year as inventories grew relative to sales. Although the rate of spending by Canadian consumers was well maintained, their outlay on consumer durable goods was reduced while the amount spent for services and nondurables increased. These developments generally paralleled a similar movement which occurred somewhat earlier in the United States, and they forced cutbacks in Canadian production as well as in imports.

United States exports strongly competitive

The rise in nonagricultural exports during 1954 has demonstrated the strong competitive position of United States products in world markets. The accompanying chart indicates that United States exporters increased their sales to Latin America and the outer sterling area in the face of greatly intensified competition from other major manufacturing nations. Moreover, the United States continued to maintain its relative share in the Canadian market, although in the second quarter of 1954 exports to Canada had not yet recovered from the drop which began in mid-1953. In addition to the reduced exports of capital and consumer goods, lower shipments of coal and petroleum also contributed to the decline. The steady growth in the use of indigenous sources of petroleum and water power have steadily diminished Canadian requirements for imported fuel. Other exports, particularly tractors and other farm machinery, were adversely affected by the reduction in Canadian farm income.

Latin America buys more

While a year ago trade with Canada stood in the strongest position, in the first half of 1954 the Latin American market provided the greatest stimulus to United States nonagricultural exports.

Latin American countries taken together increased their purchases of almost all types of American goods, including passenger cars, medicinals and other consumer items; capital goods such as railway equipment, tractors and trucks and busses; and chemicals and other related items.

The chart indicates that other industrial countries increased their exports to Latin America during 1953. In 1954, however, these gains were somewhat modified as shipments declined from the peak value recorded during the last months of 1953. Nearly one-half of Latin America's purchases from these countries consisted of machinery and transport equipment while chemicals, steel and other raw materials made up an additional one-third of the total.

Latin America's rising imports can be attributed to a number of factors, chief of which was an ability to maintain sales to the United States and to increase exports to Europe. Dollar earnings through sales to the United States were sustained by rising coffee prices and increased petroleum and iron ore exports which offset the lower shipments of wool, copper and tin. At the same time, Latin America benefited by expanding markets in Western Europe for foodstuffs and industrial raw materials.

The need to replenish inventories was another factor behind the recent rise in Latin America's imports. The chart pictures the curtailment of imports by these countries in 1952 and early 1953, which was apparently excessive relative to the basic import requirements of countries such as Brazil. Brazil alone accounted for about three-fourths of the decline in United States nonagricultural exports to Latin America after the middle of 1952 and for at least a third of the new rise from the first to the second quarters of 1954.

Markets in some Latin American countries—particularly Cuba, Chile, Argentina, and Peru—have been less favorable in 1954. In Cuba and Chile, incomes from the production

of sugar and copper, respectively, had declined. Although shipments to Mexico remained relatively high through mid-1954, having dropped off only slightly in June, the effects of the devaluation of the peso in April upon sales may be noticed later.

Sterling area markets improve

The rise in United States nonagricultural exports to the outer sterling area, particularly Australia and South Africa, also reflects the easing of import restrictions brought about by the improvement in sterling area reserves. The chart shows, however, that these countries had liberalized their imports from Japan, Germany, and other continental European countries early in 1953. Only in the second quarter of 1954 did the relaxation of discriminatory trade controls allow significantly greater imports from the United States, including those of passenger cars, textiles and industrial types of goods.

Nonagricultural exports to Western Europe and to other countries such as Japan and the Philippines showed only moderate variation from the 1953 pattern. On balance, exports to Western Europe rose somewhat in the first half of 1954, reflecting mainly the higher demand for metals, chemicals and other basic materials. The recent trade liberalization policies adopted by some European countries had only a limited effect upon United States sales of consumer goods, such as passenger cars, through the middle of 1954.

The moderately higher nonagricultural exports to Japan can also be accounted for by greater shipments of basic materials, particularly copper scrap and alloys, although these fell off during the second quarter of 1954. In general, the outlook for exports to Japan is somewhat uncertain due to the reduction in dollar receipts from United States military expenditures.

Imports maintained

The movement of United States imports during the year ended June 1954 indicates that foreign dollar earnings were not greatly affected by the moderate decline in United States business activity. The value of general imports during the first half of 1954 was as high as in the preceding 6 months but the trend was upwards while it moved down in the preceding period. Compared with the first half of 1953 imports were only 7 percent lower.

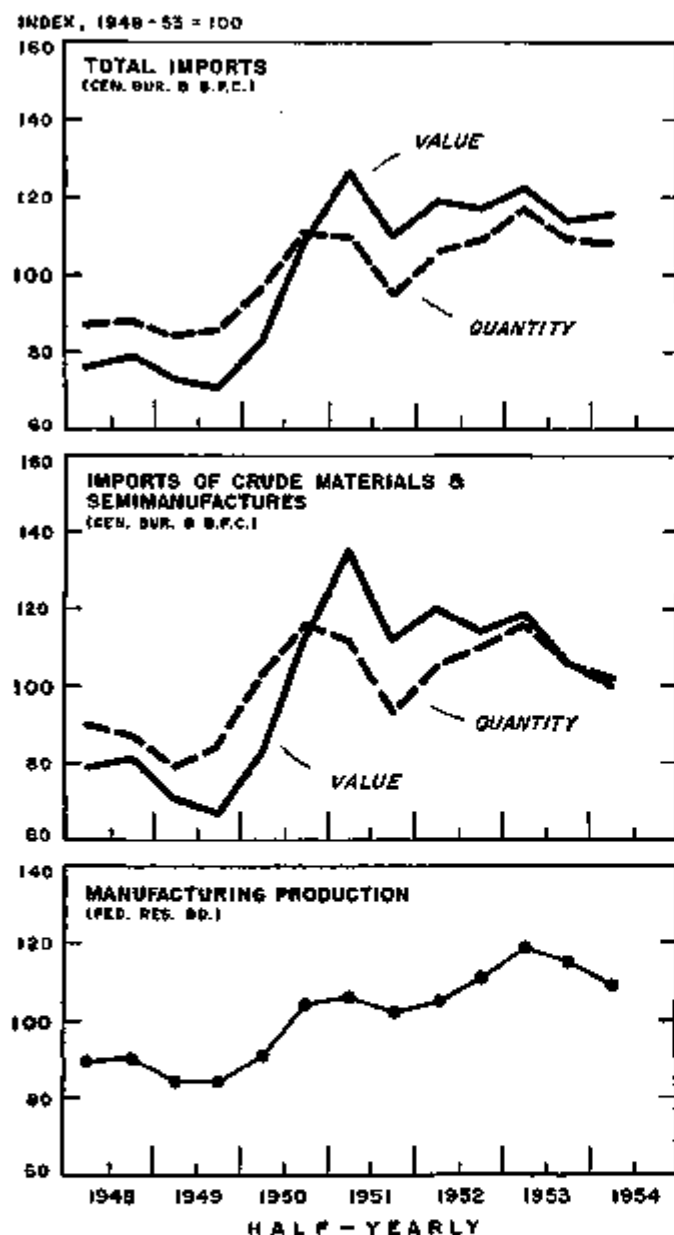
Imports for consumption shown in the chart indicate an even smaller decline. The reduction in imports relative to manufacturing production was less in the last year than that experienced in 1949.

Role of coffee and cocoa prices

The explanation lies partly in the differing behavior of prices for imported foodstuffs during these two periods of declining business activity. In the first half of 1954 the upward surge in import unit values for cocoa and coffee was instrumental in maintaining the value of total imports. Coffee imports rose by \$150 million as compared with a year ago although the volume declined slightly. Cocoa imports were higher by \$30 million, despite a large drop in quantity.

In 1949, in contrast, a sharp break in prices offset only partially by a rise in quantity, caused a significant reduction in the value of cocoa imports and thus reinforced the decline in the value of imports of other goods. At the same time, the rise in coffee imports by nearly \$100 million from 1948 to 1949 was due mainly to the greater volume of purchases rather than to higher prices. Not until 1950 did the imports reflect the sharp rise in coffee prices which began in the fall of 1949.

United States Imports for Consumption and Manufacturing Production



NOTE.—INDEXES WERE RECOMPUTED WITH 1948-53 AS BASE BY D.B.E.
OFFICE OF BUSINESS ECONOMICS, U. S. D. C.

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Strength in other prices

The greater relative strength in prices of imported crude materials and semimanufactures, as compared with the 1948-49 period, also cushioned the decline in the value of imports after the middle of 1953. As illustrated by the chart, the relative fall in the value of imports of raw materials in the year ended June 1954, was only slightly greater than the drop in the quantity of these imports. Raw material prices in the first half of 1954 averaged less than 5 percent below those prevailing a year ago.

Major adjustments in prices of some leading raw material imports such as wool, rubber, woodpulp, and lead, had occurred earlier in 1951 and 1952. Furthermore, commodities with stable or increased prices became more im-

portant in the overall import picture. Petroleum prices rose considerably after the first half of 1953 while imports were well maintained. Other commodities with relatively stable import unit values and a greater weight in total imports were newsprint, nickel, bauxite, tungsten, cobalt, and iron ore.

As manufacturing output abroad expanded in 1953 and 1954, foreign demand became relatively more important in determining the prices of some commodities traded on international markets. The effect upon prices of the reduction in United States demand was therefore offset, unlike in 1949 when production in Europe and Japan was still impeded by war-time dislocations.

In the case of wool, however, the high prices induced by heavy foreign buying were an important factor in reducing the value of our imports. As foreign prices rose above those in the United States, wool manufacturers switched to domestic wool and drew down inventories. In the second quarter of 1954, both imports and consumption recovered somewhat and stocks of foreign wool increased for the first time since the second quarter of 1953.

Other stabilizing factors

The decline in the volume of imports of crude and semi-manufactured products was somewhat less relative to the decline in manufacturing production than in 1948-49. For several important commodities, like tin and rubber, most of the decline may be ascribed to changes around the middle of 1953 in Government imports for the strategic stockpile. During the second quarter of the current year the Government increased stockpile purchases again, particularly of tin and copper.

The relatively small decline in imports for private account may in part be attributed to the fact that for many import commodities, because of the decline in prices, the rise in inventories prior to the middle of 1953 was relatively small and that consequently imports did not have to be later reduced below the current rate of utilization. Lead and zinc may be the major exceptions.

Another factor stabilizing imports was the improved competitive position of imported materials. The decline in industrial demand for rubber, for instance, affected mainly the domestic production of the synthetic product, while the utilization of natural rubber increased steadily over the last year. Imports of iron ore from newly developed resources in Venezuela rose, although total consumption of iron ore declined.

Imports of several major items, such as petroleum and paper, for which domestic demand did not change materially were rather stable. On the other hand, there are still many raw materials for which imports absorb the major part of the impact in domestic business fluctuations. Among these are most nonferrous metals and hides and skins. The improvement in consumption of nonferrous metals during the second quarter of 1954 caused a new rise in imports, particularly of copper and lead.

A major element in the import decline since last year was the 50 percent decline in steel mill products. These commodities were generally not imported before the war, and postwar imports took place mainly in periods of domestic supply stringencies such as during and after the steel strike in 1952. Although steel supplies became more ample relative to demand in recent months, some foreign steel appears to have retained a market in this country as imports have stabilized during the second quarter of this year.

Imports of finished manufactures appear to have been well maintained. This applies not only to commodities which were imported before the war, but also to relatively new

imports which were developed in recent years, such as automobiles, sewing machines, tractors, and electrical and office machinery.

The still rising trend in imports of these products offset in part the changes which could otherwise be expected from the adjustments in domestic business activity.

FOREIGN TRAVEL

As pointed out in the introductory section of this article, U. S. travelers are providing record dollar earnings to foreign countries this year. Americans are expected to spend a billion dollars abroad in 1954, and in addition pay out nearly \$200 million to foreign carriers for fares. This continues a well-established postwar upturn which has seen the yearly number of travelers to overseas destinations rise with the expansion of facilities for their transportation. Both planes and ships have increased their capacity to satisfy the urge of Americans to go abroad. Travel to most of the nearby areas has also been in record volume. Details are now available through 1953 to appraise these movements.

American residents spent \$895 million in foreign countries during 1953. In addition, about \$180 million was spent for fares on foreign carriers and about \$200 million was paid to United States carriers for international transportation.

During the first half of 1954 the rate of increase in travel payments to foreign countries over the comparable 1953 period was nearly 5 percent. This gain occurred despite a leveling off of expenditures in Mexico and Canada during early 1954, as indicated in table 1. Also, travel payments to Europe in the first 6 months of 1953 were abnormally high as a result of an unusually heavy volume of tourist travel connected with the British coronation.

Table 1.—Estimated Numbers and Expenditures of United States Residents traveling in Foreign Countries, 1952-53 and First Half of 1954¹

	Number of travelers (thousands)				Expenditures (millions of dollars)			
	1952	1953		1954	1952	1953		1954
		Year	1st half			Year	1st half	
All countries.....	(*)	(*)	(*)	(*)	811	885	378	396
Canada.....	(*)	(*)	(*)	(*)	257	282	83	83
Mexico.....	(*)	(*)	(*)	(*)	190	199	101	98
Total overseas areas.....	772	827	408	434	374	431	194	215
Europe and Mediterranean.....	332	376	191	174	256	308	132	146
West Indies and Central America.....	382	396	215	231	78	75	42	45
South America.....	36	32	17	17	25	20	11	11
Other overseas countries.....	19	22	11	12	16	20	9	13

* Not available.

1. Passenger fares and Government travel are excluded; for detailed definition, see footnote, table 1, page 11, SURVEY OF CURRENT BUSINESS, June 1953.

Source: U. S. Department of Commerce, Office of Business Economics, values based on questionnaire returns; numbers based on data of U. S. Department of Justice, Immigration and Naturalization Service.

Travel expenditures in Canada, which in 1953 had risen to \$282 million after leveling off from the previous high reached in 1948, showed a slight increase in the first half of 1954. Canada's share of United States travel dollars had remained about the same for the past 2 years—somewhat lower than during and immediately after the second world war, when a curtailment of overseas movements diverted travel to nearby foreign countries. Over half of American expenditures for travel in Canada in 1953 were made by individuals who went there by automobile, and they accounted for nearly 70 percent of total travelers.

Mexico with \$192 million received the second largest share of United States travel dollars in 1953, in spite of a decrease in the numbers of Americans traveling to the interior of

Mexico. This was more than offset by increased border expenditures, reflecting a growth in the number of service personnel in camps situated in the proximity of the border. During the first half of 1954 travel by United States residents to the interior of Mexico continued to decline. Devaluation of the peso in April 1954 did not affect travel payments in the second quarter. It is possible that the more favorable exchange rate will stimulate travel to Mexico later in the year, perhaps resulting in increased payments to Mexico.

The largest rise in absolute terms in United States travel expenditures in 1953 and the first half of 1954 occurred in the European and Mediterranean area. This was principally due to an increase in the number of travelers to Europe, reflecting a continuing growth in transportation facilities. Travel to Europe by air in 1953 increased by more than a fifth over 1952, while the numbers of travelers by sea rose by 7 percent. (See table 2.)

Table 2.—Estimated Expenditures and Numbers of United States Residents traveling in Europe and the Mediterranean Area, 1952-53¹

	Total expend. (millions of dollars)		Number of travelers (thousands)		Average expend. (dollars)	
	1952	1953	1952	1953	1952	1953
United States residents.....	256	306	332	376	767	812
Sea.....	156	179	194	207	800	858
Air.....	100	127	138	169	722	755
Native-born residents.....	177	217	188	222	935	973
Sea.....	105	126	102	116	1,024	1,075
Air.....	72	91	86	106	831	861
Foreign-born residents.....	79	89	144	154	548	578
Sea.....	51	53	92	91	553	580
Air.....	28	36	52	63	539	575

1. Passenger fares and Government travel are excluded; for detailed definition see footnote, table 1, page 11, SURVEY OF CURRENT BUSINESS, June 1953.

Source: U. S. Department of Commerce, Office of Business Economics, based on questionnaire returns.

Per capita expenditures of travelers to Europe increased in the third and fourth quarters of 1953 and the first quarter of 1954 by about 6 percent over the comparable periods of the preceding year, after having remained relatively stable since 1950.

Table 3.—Number and Expenditures of United States Residents Traveling in Europe and the Mediterranean Area, 1952-53, Total and Selected Countries¹

	Number of travelers (thousands)		Total expend. (millions of dollars)		Average expenditures per trip (dollars)	
	1952	1953	1952	1953	1952	1953
Europe and Mediterranean.....	332	376	256.0	306.0	767	812
France.....	193	212	60.0	68.0	310	320
United Kingdom.....	159	192	41.0	57.0	260	296
Italy.....	145	160	50.5	55.0	344	342
Switzerland.....	115	123	21.5	24.0	186	189
Germany.....	101	120	23.5	28.5	229	220
Benelux.....	85	100	11.5	14.0	135	139
Scandinavia.....	48	60	15.0	20.5	308	343
Spain.....	(*)	43	(*)	10.0	(*)	233
Elire.....	24	33	4.5	6.0	184	183

* Not available.

1. Passenger fares and Government travel are excluded; for detailed definition see footnote, table 1, page 11, SURVEY OF CURRENT BUSINESS, June 1953.

Source: U. S. Department of Commerce, Office of Business Economics, based on questionnaire returns.

France continued to receive the major portion of American tourist expenditures in Europe, \$68 million in 1953. (See table 3.) However, this represented a smaller share of the European total than in other recent years. The United Kingdom's share of United States travel payments reached a new high of \$57 million in 1953 as a result of visitors drawn to Great Britain by the Coronation. There was also an increase of about 10 percent over the preceding year in per capita expenditures. The influx of tourists to the British Isles in 1953 also resulted in higher expenditures in Eire.

Travel expenditures in the West Indies and Central America have leveled off during the last 3 years. A slight rise in travel volume has been accompanied by a shift in travel to the nearby British West Indies, where the average expenditure is somewhat lower than for the area as a whole.

Foreign travel to the United States

Expenditures by foreigners traveling in the United States reached an all-time high of \$527 million in 1953. This was about 3 percent higher than in 1952, compared with an average annual increase of nearly 10 percent during the preceding 6 years.

Canadians continued to account for over half of all foreign travel spending here. Receipts of \$307 million in 1953 topped the 1952 figure by \$13 million and exceeded American travel payments to Canada by \$25 million. Although the number of United States residents visiting Canada exceeded the number of Canadians traveling here, the per capita expenditure of Canadian travelers is higher.

Receipts from European travelers have stabilized at around \$40 million to \$45 million a year for the past 5 years.

Table 4.—Balance of Payments of the United States, by Area—

(Millions of dollars)

Line	Item	All areas			Western Europe			Western European dependencies			Eastern Europe			Canada		
		1953			1954			1953			1954			1953		
		II	I*	II*	II	I*	II*	II	I*	II*	II	I*	II*	II	I*	II*
1	Exports of goods and services, total.....	5,733	4,767	5,439	2,172	1,487	2,339	177	143	197	2	7	3	1,149	888	1,038
2	Military transfers under aid programs, net, total.....	1,383	826	896	1,127	649	681	—	—	—	—	—	—	—	(*)	—
3	Supplies.....	1,332	784	830	1,079	625	657	—	—	—	—	—	—	—	—	—
4	Services, including freight.....	41	42	60	48	35	44	—	—	—	—	—	—	—	—	—
5	Other goods and services, total.....	4,349	3,941	4,543	1,045	1,027	1,268	177	143	197	2	7	3	1,149	888	1,038
6	Merchandise, adjusted.....	3,187	2,449	3,511	745	713	913	131	106	149	1	5	2	926	695	824
7	Transportation.....	314	260	323	128	122	138	10	10	11	—	—	—	23	21	24
8	Travel.....	145	107	149	12	9	14	3	1	3	(*)	(*)	(*)	84	66	87
9	Miscellaneous services:	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
10	Private.....	170	186	204	72	78	95	3	3	4	1	1	1	22	21	22
11	Government.....	61	46	42	20	24	17	—	(*)	(*)	—	(*)	(*)	7	4	4
12	Income on investments:	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
13	Private.....	436	417	499	61	44	62	20	23	31	—	—	—	87	95	92
14	Government.....	30	47	37	17	86	22	1	(*)	(*)	—	1	(*)	—	(*)	(*)
15	Imports of goods and services, total.....	4,259	3,717	4,129	1,257	1,066	1,294	297	287	298	11	9	11	791	641	730
16	Merchandise, adjusted (excluding military expenditures).....	2,823	2,414	2,751	688	447	526	240	240	249	11	8	10	631	527	590
17	Transportation.....	237	224	274	153	105	148	6	6	8	—	—	—	32	20	22
18	Travel.....	238	140	249	96	83	105	15	17	16	(*)	(*)	(*)	58	25	60
19	Miscellaneous services:	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
20	Private.....	74	60	82	53	40	60	(*)	(*)	(*)	—	—	—	6	7	6
21	Government (excluding military expenditures).....	63	62	51	25	20	24	1	2	2	—	1	—	1	1	1
22	Military expenditures.....	600	602	606	278	324	359	33	22	25	—	(*)	(*)	42	41	42
23	Income on investments:	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
24	Private.....	86	63	95	57	64	66	1	1	1	—	—	—	25	16	27
25	Government.....	20	25	14	7	11	8	—	(*)	(*)	—	—	—	6	4	2
26	Balance on goods and services.....	1,474	1,050	1,310	915	622	645	-120	-144	-91	-9	-2	-8	358	247	288
27	Unilateral transfers net, (to foreign countries (-)), total.....	-2,063	-1,356	-1,488	-1,646	-980	-935	-5	-6	-6	-4	-7	-6	-4	-1	-1
28	Private remittances.....	-118	-106	-110	-67	-56	-67	-5	-5	-6	-4	-4	-5	-2	1	1
29	Government:	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
30	Military supplies and services.....	-1,383	-826	-896	-1,127	-649	-681	—	—	—	—	—	—	—	(*)	—
31	Other grants.....	-521	-292	-321	-345	-298	-210	(*)	(*)	(*)	-3	-1	-1	-3	-2	-2
32	Pensions and other transfers.....	-41	-32	-81	-17	-10	-7	-1	(*)	(*)	—	(*)	(*)	—	—	—
33	United States capital net, (outflow of funds (-)), total.....	25	-206	-346	146	142	27	-12	21	-3	1	1	1	-6	-243	-132
34	Private, net, total.....	70	-328	-316	63	14	24	-15	19	-1	—	—	—	-7	-267	-128
35	Direct investments.....	-210	-180	-227	4	-10	-4	-14	13	3	—	—	—	-114	-97	-137
36	Portfolio.....	199	-230	15	72	31	46	1	1	(*)	—	—	—	109	-153	11
37	Short-term.....	90	41	-104	17	-1	-17	-2	4	-4	—	—	—	-2	-3	-7
38	Government, net, total.....	-85	122	-29	63	128	3	3	3	-2	1	1	1	1	5	-4
39	Long-term capital outflow.....	-190	-64	-92	-22	-19	-18	-1	-1	-2	—	—	—	—	-1	-4
40	Repayments.....	139	151	110	70	131	65	4	4	(*)	1	1	1	1	10	(*)
41	Short-term (net).....	22	25	-77	5	25	-44	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
42	Foreign capital net, (outflow of funds (-)), total.....	338	443	262	406	325	297	-5	-10	-13	-1	2	1	-204	29	-69
43	Long-term investments:	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
44	Direct and portfolio (excluding United States Government securities).....	10	10	58	34	66	1	1	1	—	—	—	—	3	-14	-10
45	Transactions in United States Government securities.....	18	16	60	9	13	24	—	—	—	—	—	—	5	3	-27
46	Short-term liability to foreign banks and official institutions.....	333	304	181	440	293	305	-3	-9	-11	-1	2	1	-190	20	-5
47	Other short-term liabilities.....	-63	53	-18	17	-4	—	-4	—	—	—	—	—	-62	20	-15
48	Gold sales (purchase) (-).....	128	64	8	103	63	72	1	—	—	—	—	—	-2	-2	-3
49	Foreign capital and gold, total.....	420	499	300	508	388	469	-4	-14	-13	-1	2	1	-204	29	-72
50	Transfer of funds between foreign areas (receipts by foreign areas (-)) and errors and omissions.....	120	13	-27	-90	-104	-170	141	130	118	13	6	12	-114	-30	-23

n. Preliminary. nsa. Not shown separately. r. Less than \$500,000. z. Revised.

1. Exports of goods and services to the sterling area have been adjusted to exclude exports of military end-use items and services financed under military aid programs, and to include

in merchandise for the total sterling area, but not for the United Kingdom and the other component areas "special category" exports sold, or transferred under other aid programs. (See "special category" goods, see *Foreign Trade Statistics* for February 1953 published by the Bureau of the Census.)

Most of these expenditures were made by business travelers. The easing of exchange restrictions by some European countries during the latter part of the period have not yet been reflected in a rise in travel to the United States by their residents.

Travel expenditures in the United States by Latin American residents continue to increase slowly as incomes in these countries rise and transportation facilities at lower rates become available.

BALANCE OF PAYMENTS

The table of the balance of payments of the United States brings together all of the transactions, and breaks them down into the major areas and types. The merchandise and travel accounts have been extensively reviewed in the preceding sections, and the very substantial improvement in

the dollar reserve position of foreign countries was highlighted in the introductory part of this article.

There remains to be reviewed capital movements and Government aid, and a word to be said with regard to military expenditures which, as pointed out in last month's issue of the *SURVEY*, added \$2½ billion to foreign countries' dollar receipts in 1953. These expenditures by United States forces have continued to rise in Europe, but have contracted in the Far East. The rise this year in Europe was due mainly to increased payments on "offshore" procurement contracts, which reached \$150 million in the second quarter of 1954.

Capital movements

Within private capital movements, direct investments remained about as high in the second quarter of 1954 as last

Second Quarter 1953 and First and Second Quarters, 1954

(Millions of dollars)

Latin American republics			All other countries			International institutions			Sterling area ¹																		Line
									Total			United Kingdom			Other Europe			Dependencies			Other countries						
1953 II	1954		1953 II	1954		1953 II	1954		1953 II	1954		1953 II	1954		1953 II	1954		1953 II	1954		1953 II	1954					
	I	II		I	II		I	II		I	II		I	II		I	II		I	II		I	II				
1,087	1,038	1,234	1,120	988	1,264	15	21	20	578	545	681	233	244	259	12	9	10	91	72	94	193	192	258	1			
8	11	12	246	155	382				688	669	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	3			
8	10	12	233	148	381				683	664	996	996	996	996	996	996	996	996	996	996	996	996	996	3			
			13	0	11				544	524	885	885	885	885	885	885	885	885	885	885	885	885	885	4			
1,089	1,027	1,235	872	828	962	15	21	20	578	543	681	233	244	259	12	9	10	91	72	94	193	192	258	5			
768	711	892	828	810	729	1	5	7	365	355	438	133	136	140	10	8	8	54	42	56	134	140	159	6			
81	74	83	72	68	90				67	51	50	33	31	35				(*)	(*)	5	19	15	18	7			
37	33	39	10	8	10				10	8	11	4	3	5				(*)	(*)	2	4	4	4	8			
42	42	43	34	28	28	12	11	11	56	57	74	44	44	60				(*)	(*)	3	9	11	11	9			
7	0	7	27	11	14				4	8	6	2	3	3				(*)	(*)		3	5	3	10			
147	185	153	108	98	110	2	5	2	78	65	67	28	27	37				27	22	28	21	18	22	11			
7	6	10	8	4	5				9	1	8	4	4	4				(*)	(*)		3	1	3	12			
1,085	1,029	1,095	864	811	889	5	5	2	732	692	717	300	295	371	18	11	12	180	143	167	101	143	167	13			
922	835	933	400	357	449				461	358	427	187	113	134	3	3	3	150	118	138	171	130	132	14			
84	57	69	41	36	40				45	28	52	68	39	53	1	1	1	4	2	3	5	3	5	15			
62	57	69	7	7	9				37	25	36	19	6	17				13	15	14	3	3	2	16			
11	11	14	4	2	2				46	47	47	45	47	47				(*)	(*)		1	(*)	(*)	17			
18	10	17	17	11	11	1	1	(*)	9	8	6	3	2	2				1	1	1	5	3	3	18			
4	0	6	243	100	177				77	87	97	66	67	77				4	6	6	11	10	4	10			
3	2	2	(*)	(*)	1	4	4	2	34	37	40	33	30	39				1	1	1	(*)	(*)	(*)	28			
1	3	1	2	2	1				2	3	2	2	3	2							(*)	(*)	(*)	21			
12	-61	143	316	372	375	10	15	19	-163	-97	-36	-97	-61	-87	2	-2	-2	-89	-71	-73	2	49	91	22			
-31	-35	-40	-445	-399	-443	-24	-10	-7	-110	-73	-69	-73	-63	-86	-9	-3	-4	-4	-6	-6	-24	-12	-16	23			
-13	-13	-14	-37	-30	-29				-23	-19	-23	-9	-8	-11	-4	-3	-3	-4	-4	-5	-6	-4	-4	24			
-8	-11	-13	-348	-155	-302				136	155	199	139	188	238	138	158	138	138	138	138	138	138	138	25			
-8	-10	-10	-149	-103	-83	-24	-30	-7	-64	-52	-34	-83	-44	-23	-3	(*)	(*)	(*)	(*)	(*)	-16	-11	-11	26			
-1	-2	-3	-27	-21	-10				-3	-2	-2	-1	-1	-1				-1	(*)	(*)	-2	(*)	(*)	27			
-184	34	-133	5	-68	-104	5	-99	-1	23	32	-27	44	44	-13				(*)	(*)	-9	2	1	-12	-14	-10		
23	49	-126	-29	-62	-74	5	-99	-1	31	34	-35	44	38	-23				(*)	(*)	-10	2	3	-3	-5	29		
-68	0	-04	-28	-36	-30				-3	-6	-1	10	7	5				(*)	(*)	-11	(*)	4	-4	-10	30		
18	3	-4	-9	-31	-20	5	-30	-1	22	21	-3	20	13	-9				1	1	1	1	7	5	31			
71	38	-08	6	-8					14	19	-21	14	18	-19				1	1	-1			-1	32			
-127	-13	3	34	-6	-30				-8	-2	-2		6	-7				(*)	(*)	1	0	-2	-9	-3	33		
-147	-21	-20	-23	-13	-18				-13	-10	-10							-1	-1	-2	-12	-9	-7	34			
20	0	23	43	6	22				4	2	1							1	1	1	1	1	1	35			
	-1	1	17	1	-24				1	6	13	-1	6	12				(*)	(*)	2	(*)	2	(*)	1	36		
204	114	127	-36	-72	-138	24	35	-43	169	167	213	169	136	213	3			-6	-9	8	23	-17	-2	37			
4	-3	12	-1		3	2	3	3	-5	22	37	-5	21	35					1	1			1	38			
-1	2	40	(*)	-1	4	(*)	20		9	19	-11	9	18	-11				(*)	(*)		(*)	(*)	(*)	39			
108	79	59	-46	-72	-123	17	32	-66	181	53	294	165	75	195	2			-4	-3	0	28	-20	(*)	40			
-7	35	16	-0	0	-8	-1	1		4	12	-12	10	0	-7				-1	-2	-5	3	-3	(*)	41			
23	-10	-54	2	0		-1	-5	-7	41	(*)	58	49		66				1	(*)		(*)	(*)	(*)	42			
127	194	73	-54	-63	-138	23	50	-58	236	167	268	209	128	268	2			-4	-3	3	23	-17	-2	43			
-4	-44	-43	138	68	110	-14	31	40	10	-0	-140	-83	-80	-122	5	5	0	106	70	09	11	-6	-04	44			

2. Includes loans and returns of military equipment.

For "all areas": 1953 II-351; 1954 I-309; 1954 II-113.

Note.—Not foreign investment equals balance on goods, services, and unilateral transfers

Source: U. S. Department of Commerce, Office of Business Economics.

year, but the estimates for direct investments in Canada during the second quarter include about \$30 million for investment trusts organized in that country by American interests as a means of acquiring Canadian securities for long-term investment.

There was a considerable rise in international purchases and sales of corporate stocks, with Americans buying foreign stocks, particularly in Canada and the Netherlands, while investors in some European countries invested substantial amounts in United States stocks.

The improved supply of capital in both Canada and Europe reduced the difference between United States and foreign interest rates, and thus practically eliminated new issues of foreign securities here. During the six months ending in March these flotations had resulted in a capital outflow of \$376 million. In fact, European countries found it advantageous to reduce their long-term debts to private United States banks during the second quarter. Furthermore, since June, the Netherlands has made substantial repayments before maturity on a reconstruction loan by the International Bank, and the United Kingdom returned to the International Monetary Fund \$112 million obtained in 1947 and 1948. The International Bank found it possible to obtain an increasing proportion of its capital requirements in Europe and Canada, and in July a private American corporation floated a loan in Europe.

Short-term United States capital reversed its movements from a net return flow which had lasted all through 1953 and the first quarter of 1954 to a net outflow of over \$100 million. Most of this outflow consisted of commercial credits on exports, particularly to Brazil and Colombia. There was also an outflow of short-term funds to the United Kingdom, possibly in connection with the opening of the gold market and various commodity exchanges in that country.

Government aid

The rise in military aid during the second quarter was due mainly to increased shipments of military equipment to

Indochina prior to the conclusion of the armistice. The smaller amount of other grants included about \$65 million as budget aid to France to meet the costs of the war in Indochina and \$15 million in British currency obtained through the sale of surplus agricultural goods, which was returned as grants to the United Kingdom to further the general aims of the mutual security program.

Repayments on long-term Government credits exceeded new loans by about \$50 million, and the short-term Government capital outflow reflects largely a net increase in holdings of foreign currency or claims arising from the sale of surplus agricultural materials. Thus, Government assistance to foreign countries to overcome basic deficiencies in their economies has declined more than the figures for Government grants and capital movements indicate.

Second quarter summary

Omitting exports of military-end items supplied under military aid programs, and reducing net exports by about \$100 million to allow for the effects of the interruption of shipping during March, the balance of goods and services in favor of the United States during the second quarter amounted to approximately \$470 million. This amount was about \$120 million larger than the aggregate funds available to foreign countries from private remittances, Government transfer payments and long-term private investments. In part, therefore, United States exports during the second quarter were financed by special means such as short-term private credits or Government grants and acceptance of foreign currencies in payment for surplus agricultural products.

Except for the last quarter of 1953, which was affected by seasonally large incomes from foreign investments, this was the first time since the second quarter of 1952 that the balance due the United States on goods and services had not remained within the limit within which it could be financed without resort to such special means. On the whole, however, the position of foreign countries mirrors further economic improvement.

Growth Characteristics of the Economy Illustrated by the Chemical Industry

(Continued from p. 14)

Overall, it is estimated that the chemical industry has invested over \$1 billion for facilities to produce all types of synthetic fibers since the end of the war. By the end of 1955, additional substantial expenditures will be necessary to complete the present facilities expansion program.

The rapid large-scale development of the synthetic rubber industry provides a further illustration of the huge investment required in the development of a new product. Prior to the last war the only commercial synthetic rubber of consequence produced in this country was neoprene. This was first introduced in 1934 with production reaching only 2,000 tons by 1939. Within the space of a little over three years approximately \$700 million was invested in Government-owned synthetic rubber producing facilities having a capacity of 1,000,000 tons.

Equally impressive has been the expansion in plastics manufacture. The expansion goal calls for capacity to produce 4.6 billion pounds of plastic materials by January 1, 1955, involving a total investment of \$450 million. The goal represents an increase of 2.5 billion pounds over actual production of 2.1 billion pounds produced in 1951. This program includes all the resins which are utilized to produce civilian, defense-supporting, and certain military end items.

Government Expenditures and Income

(Continued from p. 8)

by a deficit. The differences in both cases, however, have been quite small relative to total revenues.

A major portion of the State and local new construction put in place during the past year was financed out of borrowed funds. From July 1953 through June 1954, these governments raised new capital amounting to \$6.6 billion, half again as much as in the previous year. The rate of borrowing has been unusually high since last January with the trend toward self-liquidating projects a contributing factor.

The outlook for State and local purchases is for another year of increase close to the \$2 billion postwar average annual rate. The heavy borrowings of recent months foreshadow a resumption of the long-term rising trend of new construction outlays; Federal-aid highway grants have been doubled for fiscal years 1955 and 1956, and school enrollments are up sharply again this fall, creating additional demands for teachers and school facilities. While the over-all increase in debt during the past year has been large, liquid assets held by State and local governments—mostly in sinking funds—are still rising almost as fast as the debt. The course of revenues during this same period is dependent in part upon the trend of general economic conditions, but the tax structures of these governments tend to make receipts relatively insensitive to small changes in the national product and income.